

TAXATION

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**MONTANA STATE SENATE
2007 LEGISLATURE**

VISITOR REGISTER

TAXATION

DATE 1-12-07

BILLS BEING HEARD TODAY SB-99 SB-76
SB-150

PLEASE PRINT

NAME	PHONE	REPRESENTING	BILL #	SUPPORT	OPPOSE
Jim Madison	933-5517	AARP Montana	150	X	
Michelle Herrington	443-4546	MT Community Fdn.	"	X	
Cathy Cooney	837-6993	MT Community Foundation	150	X	
Mary Ann Gorsich	227-8312	MT Community Foundation	150	X	
John Medlar	949-0109	MT Community Foundation	150	X	
Mike Munch	444-2102	St. Peter's Hospital	150	X	
Dick Brown	442-1911	mt Hosp Assn	150	X	
Brian Staley	444-1758	MT DCR	99	X	
STERW SULLIVAN	443-6300	SELF	150	X	
Cary Henneberg	2-4162	Contractors	150	X	
Don Buchs	444-1900	MT Dept. of Rev	150	X	
"	"	" " " "	99	X	
"	"	" " " "	76		X
Ben D. Wagner	444-3338	"	150	X	
Linda Reed	443-4071	MT Community Fnd	150	X	
Joe Talbot	406-549-8438	Gov Task Force on Endowments	150	X	
Jan Soff	406-671-0133	Gov Task Force Follow-up	150	X	
Barbara Anthony	406-447-5408	Carroll College	150	X	
Ed Stid (Construction)	443-568	Self	150	X	
Charlie Binger	449-4075	MACRS-SIA	150	X	
Mike Halligan	320-6351	WASH. Co.	150	X	

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0150	Title:	Exclude property contributions from qualified endowment credit and extend credit
Primary Sponsor:	Gillan, K.	Status:	As Introduced

- | | | |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$3,012,189)	(\$3,168,110)	(\$3,326,704)
Net Impact-General Fund Balance	<u>\$0</u>	<u>(\$3,012,189)</u>	<u>(\$3,168,110)</u>	<u>(\$3,326,704)</u>

Description of Fiscal Impact: This legislation extends the qualified charitable endowment credit through 2013 and excludes property contribution from the qualified endowment credit. The state will have reduced individual and corporate income tax revenues due to the credit extension.

FISCAL ANALYSIS

Assumptions:

1. This legislation makes contributions to a qualified endowment for the specific purpose of building real property, purchasing equipment, or other facilities ineligible for the endowment credit.
2. It is assumed that the same amount of money will be contributed as endowment credit, but it will not be specified as a property contribution. This results in the same amount of endowment credit, so the impact of the change is zero.
3. This legislation also extends the endowment credit through 2013. The credit currently expires after tax year 2007; therefore, the fiscal impact of the proposed legislation will be zero in FY 2008. FY 2009 will

be the first fiscal year impacted by the extension. Table 1 shows the revenue calculations for projections through FY 2011 and it is discussed below.

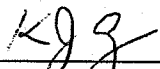

Table 1: Summary of Fiscal Impact of Extending the Charitable Endowment Credit				
		FY2009	FY2010	FY2011
Revenue Loss: Estimated	Individual	(\$2,940,681)	(\$3,092,619)	(\$3,252,491)
Credit Used to Decrease Tax	Corporate	(\$147,393)	(\$155,009)	(\$163,022)
Liability	Total	(\$3,088,074)	(\$3,247,628)	(\$3,415,513)
Revenue Increase: Due to	Individual	\$68,184	\$71,419	\$80,292
Adjustment of Charitable	Corporate	\$7,701	\$8,098	\$8,517
Deduction	Total	\$75,885	\$79,518	\$88,809
Total Fiscal Impact	Revenue Loss	(\$3,088,074)	(\$3,247,628)	(\$3,415,513)
	Revenue Increase	\$75,885	\$79,518	\$88,809
	Total	(\$3,012,189)	(\$3,168,110)	(\$3,326,704)

4. The extension of the endowment credit will decrease revenues by the amount of credits claimed. The loss of tax revenues from extending the charitable endowment credit for individuals was estimated by multiplying the total charitable gifts qualified for the endowment credit in 2004 (\$6,462,603) by the appropriate growth rate, by the individual credit rate (40%), and by the average percentage of the endowment credit claimed from 1997-2004 (93%). This resulted in projected endowment credit amounts of \$2,940,681 in FY 2009 ($\$6,462,603 \times 1.2232 \times .40 \times .93$), \$3,092,619 in FY 2010 ($\$6,462,603 \times 1.2864 \times .40 \times .93$), and \$3,252,491 in FY 2011 ($\$6,462,603 \times 1.3529 \times .40 \times .93$).
5. It is assumed that the growth rates for the individual charitable deduction are the same as growth rates of charitable endowment credit claimed by corporations. The loss of tax revenues from extending the charitable endowment credit for corporations was estimated by multiplying the total corporate gifts in 2004 (\$602,490) by the appropriate growth rate, and by the corporate credit rate (20%). This resulted in projected endowment credit amounts of \$147,393 in FY 2009 ($\$602,490 \times 1.2232 \times .20$), \$155,009 in FY 2010 ($\$602,490 \times 1.2864 \times .20$), and \$163,022 in FY 2011 ($\$602,490 \times 1.3529 \times .20$).
6. The total estimated revenue loss from extending the endowment credit is the sum of the individual and corporate credits which come to \$3.088 million in FY 2009, \$3.248 million in FY 2010, and \$3.416 million in FY 2011.
7. However, there is also an offsetting increase in revenues that comes through the charitable deduction. Because the credit and the deduction cannot be claimed on the same gift, taxpayers claiming the credit would remove the gift amount from the charitable deduction claimed, thus increasing taxable income and tax liability. The total increase in individual income tax revenue for is projected by taking the difference in tax liability before credits with and without the endowment credit. This difference is projected to be \$68,184 in FY 2009, \$71,419 in FY 2010, and \$80,292 in FY 2011. Similar methodology was used to estimate the corporate tax revenue increase, resulting in increased revenue of \$7,701 in FY 2009, \$8,098 in FY 2010, and \$8,517 in FY 2011. The total revenue increase is projected to be \$75,885 in FY 2009, \$79,518 in FY 2010, and \$88,809 in FY 2011.
8. The total fiscal impact of this legislation is calculated by adding the expected revenue loss and the expected revenue gain. This results in a decrease in revenue of \$3,012,189 in FY 2009, \$3,168,110 in FY 2010, and \$3,326,704 in FY 2011.
9. The Department of Revenue does not anticipate any additional administrative costs due to the proposed legislation.

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$0	(\$3,012,189)	(\$3,168,110)	(\$3,326,704)
TOTAL Revenues	<u>\$0</u>	<u>(\$3,012,189)</u>	<u>(\$3,168,110)</u>	<u>(\$3,326,704)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$3,012,189)	(\$3,168,110)	(\$3,326,704)

Long-Range Impacts:

1. The proposed legislation extends the charitable endowment credit through tax year 2013. The estimated revenue loss from this legislation beyond FY 2011, calculated in the same manner as described above, is \$3,498,144 in FY 2012, \$3,679,265 in FY 2013, and \$3,869,391 in FY 2014.

 <hr/> Sponsor's Initials	1/5/07 <hr/> Date	 <hr/> Budget Director's Initials	1/4/07 <hr/> Date
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